

CITY OF FAIRFAX

INDEPENDENT AUDITOR'S REPORT
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2010

TABLE OF CONTENTS

		<u>Page</u>
Officials		3
Independent Auditor's Report		4-5
Management's Discussion and Analysis		6-13
Basic Financial Statements	<u>Exhibit</u>	
Government-wide Financial Statement:		
Statement of Activities and Net Assets -		
Cash Basis	A	15
Governmental Fund Financial Statement:		
Statement of Cash Receipts, Disbursements		
and Changes in Cash Balances	B	16
Proprietary Fund Financial Statement:		
Statement of Cash Receipts, Disbursements		
and Changes in Cash Balances	C	17
Notes to Financial Statements		18-24
Required Supplementary Information		
Budgetary Comparison Schedule of Receipts,		
Disbursements and Changes in Balances-Budget		
and Actual (Cash Basis)-All Governmental Funds		
and Proprietary Funds		26
Notes to Required Supplementary Information-		
Budgetary Reporting		27
Other Supplementary Information	<u>Schedule</u>	
Schedule of Cash Receipts, Disbursements		
and Changes in Cash Balances-Nonmajor		
Governmental Funds	1	29
Schedule of Indebtedness	2	30
Bond and Note Maturities	3	31-32
Independent Auditor's Report on Internal Control		
over Financial Reporting and on Compliance and		
Other Matters Based on an Audit of Financial		
Statements Performed in Accordance with		
<u>Government Auditing Standards</u>		33-35
Schedule of Findings and Responses		36-38

CITY OF FAIRFAX

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2010)		
William Voss	Mayor	2010
Marianne Wainwright	Mayor Pro tem	2010
JoAnn Beer	Council Member	2010
Bernie Frieden	Council Member	2010
Marc Magers	Council Member	2012
Jason Rabe	Council Member	Elected Mayor Resigned Dec 31, 2009
Nancy Flickinger	Finance Administrator	Indefinite
Cynthia Stimson	City Clerk	Indefinite
Randy Scholer	Attorney	Indefinite
(After December 2009)		
Jason Rabe	Mayor	2012
Marianne Wainwright	Mayor Pro tem	2014
Travis Otto	Council Member (Appointed Feb 9, 2010)	2012
Marc Magers	Council Member	2012
JoAnn Beer	Council Member	2014
Bernie Frieden	Council Member	2014
Nancy Flickinger	Finance Administrator	Jul 11, 2010
Cynthia Stimson	City Clerk	Indefinite
Randy Scholer	Attorney	Indefinite

Dietz, Donald & Company

CERTIFIED PUBLIC ACCOUNTANTS

STEVEN S. CLAUSEN, CPA

124A Main • P.O. Box 359

Elkader, Iowa 52043

(563) 245-2154 • (800) 310-2154

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Fairfax, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Fairfax's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by activity of the cash basis net assets and by fund of the cash balances at July 1, 2009.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by activity of the cash basis net assets and distribution

by fund of the cash balances at July 1, 2009, as discussed in the preceding paragraph, the financial statements referred to above present fairly in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Fairfax as of June 30, 2010, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated December 22, 2010 on our consideration of the City of Fairfax's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 6 through 13 and 26 through 27 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Fairfax's basic financial statements. Other supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the cash balances at July 1, 2009, as it relates to Schedule 1, as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Elkader, Iowa

December 22, 2010



Dietz, Donald and Company, CPAs
FEIN 42-1172392

City of Fairfax

Office of the Clerk

PO Box 337
Fairfax, IA 52228-0337

319-846-2204
fairfax@southslope.net

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Fairfax provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2010. We encourage readers to consider this information in conjunction with the City's financial statements, which follow. However, keep in mind that Chapter 11 of the Code of Iowa requires the City to have an audit once every four years because our population is less than 2,000. Therefore, any financial information presented herein for the fiscal year ended June 30, 2009 has not been audited.

2010 FINANCIAL HIGHLIGHTS

Receipts of the City's governmental activities decreased 13.4%, or approximately \$ 257,000 from fiscal 2009 to fiscal 2010. Property tax increased approximately \$ 81,000, but note proceeds decreased \$ 361,000.

Disbursements of the City's governmental activities decreased 0.6% or approximately \$ 9,000 in fiscal 2010 from fiscal 2009. Culture and recreation and debt service disbursements increased approximately \$ 66,000, and \$ 67,000, respectively. This was offset by a \$ 185,000 decrease in public works disbursements.

The City's total cash basis net assets decreased 19%, or approximately \$ 346,000 from June 30, 2009 to June 30, 2010. Of this amount, the assets of the governmental activities increased approximately \$ 58,000 and the assets of the business type activities decreased approximately \$ 404,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds and the City's long-term debt.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of this year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government and debt service. Property tax and state grants finance most of these activities.

Business Type Activities include the waterworks, the sanitary sewer system and solid waste disposal. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment and 3) the Debt Service Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the water, sewer and garbage funds, considered to be major funds of the City.

The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago from approximately \$ 1.012 million to approximately \$ 1.070 million. The analysis that follows focuses on the changes in cash basis net assets from governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities
(Expressed in Thousands)

	<u>Year Ended June 30,</u>	
	<u>2010</u>	<u>2009</u>
Receipts:		
Program receipts:		
Charges for service	\$ 181	166
Operating grants, contributions and restricted interest	220	340
General receipts:		
Property tax	1,011	980
Local option sales tax	211	20
Unrestricted interest on investments	33	25
Note proceeds	-	361
Other general receipts	7	29
Total receipts	<u>1,663</u>	<u>1,921</u>
Disbursements:		
Public safety	155	129
Public works	337	522
Culture and recreation	220	154
Community and economic development	5	15
General government	206	179
Debt service	661	594
Total disbursements	<u>1,584</u>	<u>1,593</u>
Change in cash basis net assets before transfers	79	328
Transfers, net	<u>(21)</u>	<u>10</u>
Change in cash basis net assets	58	338
Cash basis net assets beginning of year	<u>1,012</u>	<u>674</u>
Cash basis net assets end of year	<u>\$ 1,070</u>	<u>1,012</u>

The City's total receipts for governmental activities decreased 13.4% or approximately \$ 258,000. The total cost of all programs decreased approximately \$ 9,000, or 0.6%. The decrease in receipts was primarily the result of receiving a \$ 190,000 bequest and issuing \$ 361,000 of general obligation debt in 2009.

The City property tax rate decreased 4.6% in 2010. However, increased valuations raised the City's property tax receipts approximately \$ 31,000 in 2010. Based on a decrease in the property tax rate, but an increase in the total assessed valuation, property tax receipts are budgeted to increase approximately \$ 39,000 next year.

The cost of all governmental activities this year was approximately \$ 1.584 million compared to approximately \$ 1.593 million last year. However, as shown in the Statement of Activities and Net Assets on page 15, the amount taxpayers ultimately financed for these activities was only \$ 1.183 million because some of the cost was paid by those directly benefited from the programs (\$ 181,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$ 220,000). Overall, the City's governmental program activities receipts, including intergovernmental aid and fees for service decreased in fiscal year 2010 from approximately \$ 506,000 to approximately \$ 401,000. The City paid for the remaining "public benefit" portion of governmental activities (\$ 1.183 million) with taxes (some of which could only be used for certain programs) and other receipts, such as interest and general receipts.

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)		
	Year Ended June 30,	
	2010	2009
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 170	166
Sewer	271	242
Garbage	96	85
Operating grants	35	-
General receipts:		
Unrestricted interest on investments	2	12
Bond proceeds	98	424
Other general receipts	2	-
Total receipts	674	929
Disbursements:		
Water	758	191
Sewer	238	225
Garbage	103	95
Total disbursements	1,099	511
Change in cash basis net assets before transfers	(425)	418
Transfers, net	21	(10)
Change in cash basis net assets	(404)	408
Cash basis net assets beginning of year	802	394
Cash basis net assets end of year	\$ 398	802

Total business type activities receipts for the fiscal year were approximately \$ 674,000 compared to approximately \$ 929,000 last year. The decrease was due primarily to a \$ 326,000 decrease in bond proceeds. The cash balance decreased approximately \$ 404,000 from the prior year because the proceeds from the bonds issued in fiscal year 2009 were disbursed for the water improvement project in fiscal year 2010. Total disbursements increased 115% to approximately \$ 1.099 million because of this project.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Fairfax completed the year, its governmental funds reported a combined fund balance of \$ 1,069,871, an increase of nearly \$ 58,000 above last year's total of \$ 1,011,894. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

The General Fund cash balance decreased \$ 93,834 from the prior year to \$ 630,873. An increase in public works disbursements of \$ 68,864 accounts for most of the decrease in cash balance.

The Special Revenue, Urban Renewal Tax Increment Fund was established previously to account for major urban renewal projects within the City. At the end of the fiscal year, the cash balance was \$ 176,908, slightly more than the previous years balance of \$ 167,945. Receipts in the fund are being used to retire debt acquired from extending infrastructure and purchasing land in the urban renewal district. Tax increment financing receipts decreased \$ 13,598 to \$ 585,576 in 2010.

The Special Revenue, Local Option Sales Tax Fund was established in 2009 as the City began collecting the 1% local option sales tax. Sales tax receipts were \$ 210,814 for fiscal year 2010. The City used \$ 33,356 of sales tax receipts for debt service and \$ 38,000 for the water improvement project. At June 30, 2010, the fund balance was \$ 153,279.

The Debt Service Fund retired \$ 525,000 of outstanding debt and paid \$ 134,419 of interest on the outstanding general obligation debt. The Debt Service Fund received \$ 46,328 from the General Fund, \$ 576,613 from the Special Revenue, Urban Renewal Tax Increment Fund, \$ 33,356 from the Special Revenue, Local Option Sales Tax and \$ 4,943 from the Enterprise, Sewer Fund, in transfers to cover debt service payments.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Water Fund cash balance decreased \$ 394,870 due to spending the 2009 bond proceeds on the water improvement project.

The Sewer Fund cash balance decreased \$ 1,807 to \$ 291,690.

The Garbage Fund cash balance decreased \$ 7,070 to \$ 16,870.

BUDGETARY HIGHLIGHTS

Over the course of the year the City amended its budget once. The amendment was approved on March 9, 2010 and resulted in an increase in operating disbursements related primarily to a water improvement project of \$ 913,497.

The City's receipts were \$ 5,073 less than budgeted.

Total disbursements were \$ 597,363 less than the amended budget. Actual disbursements for public works, culture and recreation and business type activities functions were \$ 233,331, \$ 113,555 and \$ 107,336 respectively, less than the amended budget. This was primarily due to delays in the start-up or completion of various projects until fiscal 2011.

DEBT ADMINISTRATION

At June 30, 2010, the City had \$ 5,706,914 in long-term debt outstanding, compared to \$ 6,148,271 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30,	
	2010	2009
General obligation notes	\$ 3,175	3,695
General obligation bonds	95	-
Revenue bonds	2,385	2,390
Lease/purchase agreement	52	63
Total	\$ 5,707	6,148

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$ 3,321,914 is significantly below its constitutional debt limit of \$ 6,896,619.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Fairfax's elected and appointed officials and citizens considered many factors when setting the fiscal year 2011 budget, tax rates and fees charged for various City activities. One of these factors is the economy. The City has experienced nearly an 85% increase in population from 2000 to 2005. Severe flooding in Cedar Rapids in June, 2008 may create an additional influx of residents to the City. Property valuations have increased 15% for fiscal 2011.

These indicators were taken into account when adopting the budget for fiscal year 2011. Amounts available for appropriation in the operating budget are \$ 2.2 million, a decrease of 7.5% from the final 2010 budget. Property tax (benefiting from an increase in assessed valuations) and proceeds from the urban renewal tax increment financing will increase \$ 39,000. However, receipts from issuing long-term debt are expected to decrease \$ 174,000. The City has added no major new programs or initiatives to the 2011 budget.

If these estimates are realized, the City's budgeted cash balance is expected to decrease approximately \$ 157,000 by the close of 2011.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

The financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information contact Cynthia Stimson, City Clerk, 525 Vanderbilt Street, Fairfax, Iowa 52228-0337.

BASIC FINANCIAL STATEMENTS

Exhibit A

CITY OF FAIRFAX
STATEMENT OF ACTIVITIES AND NET ASSETS—CASH BASIS
As of and for the Year Ended June 30, 2010

	Disbursements	Charges for Service	Program Receipts Operating Grants	Contributions and Restricted Interest	Net (Disbursements) Receipts and Changes in Cash Basis Net Assets
Functions/Programs:					
Governmental activities:					
Public safety	\$ 155,302	74,324	19,052	19,052	(61,926)
Public works	336,818	-	154,170	154,170	(182,648)
Culture and recreation	219,882	33,212	42,210	42,210	(144,460)
Community and economic development	5,064	-	5,064	5,064	-
General government	206,012	73,347	-	-	(132,665)
Debt service	661,240	-	-	-	(661,240)
Total governmental activities	1,584,318	180,883	220,496	220,496	(1,182,939)
Business type activities:					
Water	757,723	170,155	35,000	35,000	(552,568)
Sewer	238,315	271,019	-	-	32,704
Garbage	103,024	95,954	-	-	(7,070)
Total business type activities	1,099,062	537,128	35,000	35,000	(526,934)
Total	2,683,380	718,011	255,496	255,496	(1,182,939)
General Receipts and Transfers:					
Property and other city tax					425,909
Tax increment financing					585,576
Local option sales tax					210,814
Unrestricted interest on investments					33,041
Bond proceeds					98,139
Miscellaneous					7,164
Transfers					1,800
Total general receipts and transfers					21,588
Change in cash basis net assets					1,240,916
Cash basis net assets beginning of year					57,977
Cash basis net assets end of year					(403,747)
Cash Basis Net Assets					1,011,894
Restricted:					801,894
Non-expendable:					398,147
Utility deposits					1,468,018
Expendable:					1,069,871
Streets					-
Urban renewal purposes					18,105
Debt service					92,997
Other purposes					176,908
Unrestricted:					63,356
Total cash basis net assets					169,093
					630,873
					316,686
					947,559
					398,147
					1,468,018

See notes to financial statements.

Exhibit B

CITY OF FAIRFAX
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
As of and for the Year Ended June 30, 2010

	General	Special Revenue	Urban Renewal Tax	Increment	Local Option Sales Tax	Debt Service	Nonmajor	Total
Receipts:								
Property tax	\$ 405,311	-	-	-	-	-	20,598	425,909
Tax increment financing	-	-	-	-	-	-	-	585,576
Other city tax	-	-	-	585,576	-	-	-	210,814
Licenses and permits	33,250	-	-	-	-	-	-	33,250
Use of money and property	33,586	-	-	-	-	-	-	33,586
Intergovernmental	141,106	-	-	-	-	-	146,911	288,017
Miscellaneous	86,731	-	-	-	-	-	-	86,731
Total receipts	699,984	-	-	585,576	210,814	-	167,509	1,663,883
Disbursements:								
Operating:								
Public safety	153,167	-	-	-	-	-	2,135	155,302
Public works	186,204	-	-	-	-	-	144,847	336,818
Culture and recreation	216,350	-	-	-	-	-	3,532	219,882
Community and economic development	5,064	-	-	-	-	-	-	5,064
General government	198,174	-	-	-	-	-	7,838	206,012
Debt service	-	-	-	-	-	661,240	-	661,240
Total disbursements	758,959	-	-	-	5,767	661,240	158,352	1,584,318
Excess (deficiency) of receipts over (under) disbursements	(58,975)	-	-	585,576	205,047	(661,240)	9,157	79,565
Other financing sources (uses):								
Operating transfers in	11,469	-	-	-	-	661,240	-	672,709
Operating transfers out	(46,328)	-	-	-	-	-	-	(694,297)
Total other financing sources (uses)	(34,859)	-	-	-	-	661,240	-	(21,588)
Net change in cash balances	(93,834)	-	-	8,963	133,691	-	9,157	57,977
Cash balances beginning of year	724,707	-	-	167,945	19,588	-	99,654	1,011,894
Cash balances end of year	\$ 630,873	-	-	176,908	153,279	-	108,811	1,069,871
Cash Basis Fund Balances								
Unreserved, designated:								
Fire Department	37,241	-	-	-	-	-	-	37,241
Drainage/detention project	60,272	-	-	-	-	-	-	60,272
Parks	12,099	-	-	-	-	-	-	12,099
Library	211,327	-	-	-	-	-	-	211,327
Unreserved, undesignated:								
General fund	309,934	-	-	-	-	-	-	309,934
Special revenue funds	-	-	-	176,908	153,279	-	108,811	438,998
Total cash basis fund balances	\$ 630,873	-	-	176,908	153,279	-	108,811	1,069,871

See notes to financial statements.

CITY OF FAIRFAX
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
As of and for the Year Ended June 30, 2010

	Enterprise			
	Water	Sewer	Garbage	Total
Operating receipts:				
Charges for service	\$ 170,155	271,019	95,954	537,128
Operating disbursements:				
Business type activities	255,944	155,640	103,024	514,608
Excess (deficiency) of operating receipts over (under) operating disbursements	(85,789)	115,379	(7,070)	22,520
Non-operating receipts (disbursements):				
Intergovernmental	35,000	-	-	35,000
Interest on investments	-	1,660	-	1,660
Security deposits-net	1,800	-	-	1,800
General obligation bond proceeds	98,139	-	-	98,139
Debt service	-	(82,675)	-	(82,675)
Capital projects	(501,779)	-	-	(501,779)
Net non-operating receipts (disbursements)	(366,840)	(81,015)	-	(447,855)
Excess (deficiency) of receipts over (under) disbursements	(452,629)	34,364	(7,070)	(425,335)
Operating transfers in (out)	57,759	(36,171)	-	21,588
Net change in cash balances	(394,870)	(1,807)	(7,070)	(403,747)
Cash balances beginning of year	484,457	293,497	23,940	801,894
Cash balances end of year	\$ 89,587	291,690	16,870	398,147
Cash Basis Fund Balances				
Reserved for debt service	\$ -	63,356	-	63,356
Unreserved	89,587	228,334	16,870	334,791
Total cash basis fund balances	\$ 89,587	291,690	16,870	398,147

See notes to financial statements.

CITY OF FAIRFAX

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

(1) Summary of Significant Accounting Policies

The City of Fairfax is a political subdivision of the State of Iowa located in Linn County. It was first incorporated in 1936 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development, and general government services. The City also provides water, sewer and garbage utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Fairfax has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Linn County Assessor's Conference

Board, City Assessor's Conference Board, Linn County Emergency Management Commission, and Linn County Joint E911 Service Board.

B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of inter-fund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental receipts are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in the following categories/components:

Expendable restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

The Local Option Sales Tax Fund is used to account for the spending of the 1% local option sales tax in accordance with voter wishes.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The Garbage Fund accounts for the operation of the City's solid waste collection program.

C. Measurement Focus and Basis of Accounting

The City of Fairfax maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) **Cash and Pooled Investments**

The City's deposits in banks at June 30, 2010 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement Number 3.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

(3) **Bonds and Notes Payable**

Annual debt service requirements to maturity for general obligation notes and revenue bonds are as follows:

Year Ending June 30,	General Obligation Bonds and Notes		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 545,000	114,576	5,000	71,550	550,000	186,126
2012	415,000	96,188	5,000	71,400	420,000	167,588
2013	415,000	83,114	118,000	71,250	533,000	154,364
2014	390,000	69,659	122,000	67,710	512,000	137,369
2015	395,000	56,786	125,000	64,050	520,000	120,836
2016-2020	977,000	123,815	685,000	261,600	1,662,000	385,415
2021-2025	122,000	8,330	794,000	152,460	916,000	160,790
2026-2029	10,529	422	531,000	32,040	541,529	32,462
Total	\$ 3,269,529	552,890	2,385,000	792,060	5,654,529	1,344,950

The January 27, 2010 general obligation bonds were issued from the State Revolving Loan Fund of the Iowa Finance Authority. At June 30, 2010, the City had \$ 18,471 remaining on their \$ 118,000 line of credit with the Iowa Finance Authority.

(4) Other Long-Term Debt

Annual debt service requirements to maturity for other long-term debt is as follows:

Year Ending June 30,	Lease-purchase agreement	
	Principal	Interest
2011	\$ 11,484	2,876
2012	12,115	2,245
2013	28,786	1,580
Total	\$ 52,385	6,701

(5) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 4.30% of their annual covered salary and the City is required to contribute 6.65% of covered salary. The City contributions to IPERS for the year ended June 30, 2010 were \$ 20,078, equal to the required contributions for the year.

(6) **Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation and compensatory hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and compensatory hours payable to employees at June 30, 2010, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 3,000
Compensatory hours	<u>6,000</u>
Total	<u>\$ 9,000</u>

The liability has been computed based on rates of pay in effect at June 30, 2010.

(7) **Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2010 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Enterprise: Sewer	\$ 11,469
Debt Service	General	46,328
	Special Revenue:	
	Urban Renewal Tax Increment	576,613
	Local Option Sales Tax	33,356
	Enterprise: Sewer	<u>4,943</u>
		<u>661,240</u>
Enterprise: Water	Special Revenue Local Option Sales Tax	38,000
	Enterprise: Sewer	<u>19,759</u>
		<u>57,759</u>
Total		<u>\$ 730,468</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(8) Related Party Transactions

The City had business transactions between the City and City officials totaling \$ 1,140.

(9) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in the past fiscal year.

(10) Commitments

At June 30, 2010 the City had commitments on uncompleted contracts of \$ 17,504 relating to water meter replacement and \$ 37,878 relating to Phase I of the Water Main replacement.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF FAIRFAX
BUDGETARY COMPARTISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES-
BUDGET AND ACTUAL (CASH BASIS)--ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30, 2010

	Governmental Funds Actual	Proprietary Funds Actual	Total	Budgeted Amounts Original	Final	Final to Total Variance
Receipts:						
Property tax	\$ 425,909	-	425,909	407,321	407,321	18,588
Tax increment financing	585,576	-	585,576	580,000	580,000	5,576
Other city tax	210,814	-	210,814	16,873	216,873	(6,059)
Licenses and permits	33,250	-	33,250	25,000	35,000	(1,750)
Use of money and property	33,586	1,660	35,246	25,700	49,700	(14,454)
Intergovernmental	288,017	35,000	323,017	296,150	319,150	3,867
Charges for service	-	537,128	537,128	538,200	581,500	(44,372)
Miscellaneous	86,731	1,800	88,531	35,000	55,000	33,531
Total receipts	1,663,883	575,588	2,239,471	1,924,244	2,244,544	(5,073)
Disbursements:						
Public safety	155,302	-	155,302	187,946	226,646	71,344
Public works	336,818	-	336,818	342,149	570,149	233,331
Culture and recreation	219,882	-	219,882	252,337	333,437	113,555
Community and economic development	5,064	-	5,064	26,100	26,100	21,036
General government	206,012	-	206,012	255,600	256,600	50,588
Debt service	661,240	-	661,240	648,716	661,413	173
Business type activities	-	1,099,062	1,099,062	634,398	1,206,398	107,336
Total disbursements	1,584,318	1,099,062	2,683,380	2,367,246	3,280,743	597,363
Excess (deficiency) of receipts over (under) disbursements	79,565	(523,474)	(443,909)	(443,002)	(1,036,199)	592,290
Other financing sources, net and other financing sources over (under) disbursements and other financing uses	(21,588)	119,727	98,139	-	174,000	(75,861)
Balances beginning of year	57,977	(403,747)	(345,770)	(443,002)	(862,199)	516,429
Balances end of year	1,011,894	801,894	1,813,788	870,014	1,813,788	-
	\$ 1,069,871	398,147	1,468,018	427,012	951,589	516,429

See accompanying independent auditor's report and notes to required supplementary information-budgetary reporting.

CITY OF FAIRFAX

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING

June 30, 2010

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$ 913,497. The budget amendment is reflected in the final budgeted amounts.

OTHER SUPPLEMENTARY INFORMATION

CITY OF FAIRFAX
 SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS
 AND CHANGES IN CASH BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 As of and for the Year Ended June 30, 2010

	<u>Special Revenue</u>		
	<u>Road</u>	<u>Employee</u>	
	<u>Use</u>	<u>Benefits</u>	<u>Total</u>
	<u>Tax</u>		
Receipts:			
Property tax	\$ -	20,598	20,598
Intergovernmental	146,911	-	146,911
Total receipts	146,911	20,598	167,509
Disbursements:			
Operating			
Public safety	-	2,135	2,135
Public works	143,062	1,785	144,847
Culture and recreation	-	3,532	3,532
General government	-	7,838	7,838
Total disbursements	143,062	15,290	158,352
Excess of receipts over disbursements	3,849	5,308	9,157
Cash balances beginning of year	89,148	10,506	99,654
Cash balances end of year	\$ 92,997	15,814	108,811
Cash Basis Fund Balances			
Unreserved:			
Special revenue funds	\$ 92,997	15,814	108,811

See accompanying independent auditor's report.

Schedule 2

CITY OF FAIRFAX
SCHEDULE OF INDEBTEDNESS
Year Ended June 30, 2010

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
General obligation notes:								
Corporate purpose	Mar 1, 2003	3.20-3.80%	\$ 465,000	200,000	-	50,000	150,000	7,000
Wastewater improvement	Dec 1, 2004	3.05-4.50	700,000	560,000	-	40,000	520,000	21,774
Sanitary water improvement	Oct 1, 2005	3.20-3.70	650,000	505,000	-	75,000	430,000	17,475
Urban renewal land acquisition	Oct 15, 2006	3.80-3.85	800,000	415,000	-	205,000	210,000	15,875
Sanitary sewer and Refunding	Mar 1, 2008	2.50-3.40	560,000	530,000	-	60,000	470,000	15,770
Water improvement	Apr 1, 2008	2.90-3.70	780,000	695,000	-	90,000	605,000	22,845
	Mar 24, 2009	2.75-4.20	790,000	790,000	-	-	790,000	33,356
Total				\$ 3,695,000	-	520,000	3,175,000	134,095
General obligation bonds:								
Water improvement	Jan 27, 2010	3.00%	\$ 118,000	-	99,529	5,000	94,529	324
Revenue bonds:								
Sewer	Dec 1, 2008	3.00%	\$ 2,400,000	2,390,000	-	5,000	2,385,000	71,700
Lease/purchase agreement:								
Caterpillar backhoe loader	Feb 12, 2008	5.49%	\$ 87,951	63,271	-	10,886	52,385	3,474

See accompanying independent auditor's report.

Schedule 3

CITY OF FAIRFAX
BOND AND NOTE MATURITIES
June 30, 2010

General Obligation Notes									
Year Ending June 30,	Corporate Purpose		Wastewater Improvement		Sanitary Sewer Improvement		Urban Renewal Land Acquisition		
	Issued Mar 1, 2003	Amount	Issued Dec 1, 2004	Amount	Issued Oct 1, 2005	Amount	Issued Oct 15, 2006	Amount	
	Interest Rates		Interest Rates		Interest Rates		Interest Rates		
2011	3.40%	\$ 50,000	3.25%	\$ 45,000	3.30%	\$ 80,000	3.85%	\$ 210,000	
2012	3.60	50,000	3.40	45,000	3.40	85,000	-	-	
2013	3.80	50,000	3.55	45,000	3.50	85,000	-	-	
2014	-	-	3.70	50,000	3.60	90,000	-	-	
2015	-	-	3.85	50,000	3.70	90,000	-	-	
2016	-	-	4.00	55,000	-	-	-	-	
2017	-	-	4.15	55,000	-	-	-	-	
2018	-	-	4.30	55,000	-	-	-	-	
2019	-	-	4.40	60,000	-	-	-	-	
2020	-	-	4.50	60,000	-	-	-	-	
2021	-	-	-	-	-	-	-	-	
Total		\$ 150,000		\$ 520,000		\$ 430,000		\$ 210,000	

General Obligation Notes									
Year Ending June 30,	Sanitary Sewer and Refunding		Refunding		Water Improvement		Total		
	Issued Mar 1, 2008	Amount	Issued Apr 1, 2008	Amount	Issued Mar 24, 2009	Amount			
	Interest Rates		Interest Rates		Interest Rates				
2011	2.50%	\$ 60,000	3.00%	\$ 95,000	-	\$ -	-	540,000	
2012	2.80	60,000	3.10	100,000	2.75	70,000	70,000	410,000	
2013	2.80	65,000	3.25	95,000	2.75	70,000	70,000	410,000	
2014	3.10	70,000	3.40	100,000	2.75	75,000	75,000	385,000	
2015	3.10	70,000	3.55	105,000	3.50	75,000	75,000	390,000	
2016	3.40	75,000	3.70	110,000	3.50	75,000	75,000	315,000	
2017	3.40	35,000	-	-	3.50	80,000	80,000	170,000	
2018	3.40	35,000	-	-	4.00	80,000	80,000	170,000	
2019	-	-	-	-	4.00	85,000	85,000	145,000	
2020	-	-	-	-	4.20	90,000	90,000	150,000	
2021	-	-	-	-	4.20	90,000	90,000	90,000	
Total		\$ 470,000		\$ 605,000		\$ 790,000		3,175,000	

(continued)

Schedule 3
(continued)

CITY OF FAIRFAX
BOND AND NOTE MATURITIES
June 30, 2010

Year Ending June 30,	General Obligation Bonds			Revenue Bonds			Lease/Purchase Agreement		
	Water Improvement			Sewer			Caterpillar Backhoe Loader		
	Issued Jan 27, 2010	Interest Rates	Amount	Issued Dec 1, 2006	Interest Rates	Amount	Issued Feb 12, 2008	Interest Rates	Amount
2011	3.00%	5,000	\$ 5,000	3.00%	5,000	\$ 5,000	5.49%	11,484	
2012	3.00	5,000	5,000	3.00	5,000	5,000	5.49	12,115	
2013	3.00	5,000	5,000	3.00	118,000	118,000	5.49	28,786	
2014	3.00	5,000	5,000	3.00	122,000	122,000			
2015	3.00	5,000	5,000	3.00	125,000	125,000			
2016	3.00	5,000	5,000	3.00	129,000	129,000			
2017	3.00	5,000	5,000	3.00	133,000	133,000			
2018	3.00	5,000	5,000	3.00	137,000	137,000			
2019	3.00	6,000	6,000	3.00	141,000	141,000			
2020	3.00	6,000	6,000	3.00	145,000	145,000			
2021	3.00	6,000	6,000	3.00	150,000	150,000			
2022	3.00	6,000	6,000	3.00	154,000	154,000			
2023	3.00	6,000	6,000	3.00	159,000	159,000			
2024	3.00	7,000	7,000	3.00	163,000	163,000			
2025	3.00	7,000	7,000	3.00	168,000	168,000			
2026	3.00	7,000	7,000	3.00	173,000	173,000			
2027	3.00	3,529	3,529	3.00	179,000	179,000			
2028	-	-	-	3.00	179,000	179,000			
Total			\$ 94,529			\$ 2,385,000			\$ 52,385

See accompanying independent auditor's report.

Dietz, Donald & Company

CERTIFIED PUBLIC ACCOUNTANTS

STEVEN S. CLAUSEN, CPA

124A Main • P.O. Box 359

Elkader, Iowa 52043

(563) 245-2154 • (800) 310-2154

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of the City of Fairfax, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated December 22, 2010. Our report expressed qualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City of Fairfax's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Fairfax's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Fairfax's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control over financial reporting that might be deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Fairfax's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part II of the accompanying Schedule of Findings and Responses.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Fairfax's responses to findings in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Fairfax's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Fairfax and other parties to whom the City of Fairfax may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Fairfax during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Elkader, Iowa

December 22, 2010

Dietz, Donald & Company
Dietz, Donald & Company, CPAs
FEIN 42-1172392

CITY OF FAIRFAX
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2010

Part I: Findings Related to the Financial Statements:

MATERIAL WEAKNESSES IN INTERNAL CONTROL:

No material weaknesses were identified.

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

Part II: Other Findings Related to Required Statutory Reporting:

II-A-10 **Certified Budget** - Disbursements for the year ended June 30, 2010 did not exceed the amounts budgeted.

II-B-10 **Questionable Disbursements** - Certain disbursements, which we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979, since the public benefits to be derived have not been clearly documented, were noted.

Paid to	Purpose	Amount
Fareway Stores	Pop, coffee, supplies	\$ 889
Pecks Flowers	Flower arrangements	52

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation - The Council should evaluate and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper documentation.

Response - The Council will discuss this.

Conclusion - Response accepted.

II-C-10 **Travel Expense** - No disbursements of City money for travel expenses of City officials or employees were noted.

CITY OF FAIRFAX
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2010

- II-D-10 Business Transactions** - Business Transactions between City and City officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Marianne Wainwright, Mayor pro tem, employee LL Pelling Co.	Patching materials	\$ 261
William Voss, mayor owner of Voss Welding	Repair labor, parts	629
Aaron Voss, son of mayor, owner of Aaron Voss Co.	Miscellaneous labor	250

In accordance with Chapter 362.5(11) of the Code of Iowa, none of the transactions above appear to represent a conflict of interest since total transactions with the individuals were less than \$ 2,500.

- II-E-10 Bond Coverage** - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- II-F-10 Council Minutes** - No transactions were found that we believe should have been approved in the Council minutes but were not.
- II-G-10 Deposits and Investments** - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- II-H-10 Revenue Bonds** - The City has complied with the provisions of the revenue bond resolutions.

CITY OF FAIRFAX
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2010

II-I-10 **Cash Balance** - The Special Revenue, Urban Renewal Tax Increment Fund has accumulated a balance of \$ 176,908 over a period of years.

Recommendation - Large balances should not be accumulated in the Urban Renewal Tax Increment Fund as tax askings should be used for current capital projects in the applicable TIF District or retirement of TIF debt. The Council should appropriate the majority of the carryover balance to either early retirement of TIF debt or capital projects within the TIF District, so that the carryover balance is less than \$ 20,000.

Response - We will consider this at budget time.

Conclusion - Response accepted.

II-J-10 **Financial Statements** - The City maintains an Enterprise Fund for the garbage services it provides even though all garbage services are contracted. Additionally, the City custom farms land that it purchased, and it accounts for that activity in the General Fund.

Recommendation - The garbage service should be accounted for in the General Fund, while the farming activity should be accounted for in an Enterprise Fund.

Response - We will consider this.

Conclusion - Response accepted.